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**FISCAL IMPACT STATEMENT**

**LS 6997**

**BILL NUMBER:** HB 1205

**NOTE PREPARED:** Mar 15, 2010

**BILL AMENDED:** Mar 12, 2010

**SUBJECT:** PERF and TRF Matters.

**FIRST AUTHOR:** Rep. Niezgodski

**FIRST SPONSOR:** Sen. Kenley

**BILL STATUS:** Enrolled

**FUNDS AFFECTED:** X  
X

**GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill: (1) requires the Board of Trustees of the Public Employees' Retirement Fund (PERF) and the Board of Trustees of the Indiana State Teachers' Retirement Fund (TRF) to appoint and fix the compensation of a common director for PERF and TRF;  
(2) requires that PERF and TRF each pay 50% of the director's compensation;  
(3) requires the PERF and TRF boards to cooperate to the extent practicable and feasible in administering and investing the assets of the funds and in hiring investment managers, investment advisors, and other service providers;  
(4) provides for a thirteenth check for PERF and TRF members, survivors, and beneficiaries; and  
(5) provides for a thirteenth check for employee beneficiaries of the State Police 1987 Benefit System who retired or were disabled after June 30, 1987, and before July 2, 2008, and were entitled to receive a monthly benefit as of June 1, 2010.

**Effective Date:** Upon passage; July 1, 2010.

**Explanation of State Expenditures:** *Appointment of a Common Director and Compensation:* The bill contains a noncode section requiring the PERF and TRF boards to appoint a common director no later than July 1, 2010. The two boards are required to fix the compensation of the common director, with PERF and TRF each contributing 50% of the director's compensation. The compensation for the common director will depend upon the decision of the PERF and TRF boards. The compensation for the two current directors of PERF and TRF ranges between \$125,000 and \$150,000. Since the bill requires one common director, the positions of the two current directors will be eliminated. Any savings will depend upon the salary of the newly appointed common director in relation to the compensation of the two current directors.

*Cooperation between PERF and TRF Boards:* The bill requires, to the extent practicable and feasible, cooperation in administering and investing assets of the two funds and hiring other service providers.

The total impact of this provision on the PERF and TRF pension funds will depend on complete implementation and the extent to which economies are achieved, both in lowering administrative and investment costs, along with generating higher investment returns.

Savings generated from this provision will not directly translate to any near-term reductions in state or local expenditures for member benefits. This provision directly affects PERF and TRF administrative costs, which would result in savings to the pension funds over a long period of time. Other things being equal, such as earnings on assets and member experience, an increase in administrative savings could ultimately affect the contribution rates by the members' employers, which at the state level would come from appropriations made by the state General Fund and dedicated funds.

*Thirteenth Check Provision:* The bill also provides a one-time 13<sup>th</sup> check to eligible PERF and TRF members, payable not later than October 1, 2010, and to members of the State Police 1987 Benefit System, payable not later than July 1, 2010. The state is impacted because it is an employer of PERF members and State Police 1987 Benefit System members, and the payor of pension benefits under the TRF Pre-1996 Account. The additional benefit provisions provided in this bill will result in an increase in the unfunded accrued pension liability for the state as an employer and payor of pension benefits beginning in FY 2011 and years thereafter.

A summary of the costs of this provision on the state for the three pension funds is provided in the following table.

<b>Summary of Cost Impact on the State from 13th Check.</b>				
	<b>PERF</b>	<b>TRF (Pre-1996)</b>	<b>State Police</b>	<b>Total Impact</b>
Change in Unfunded Accrued Liability	\$7.56 M	\$15.3 M	\$0.127 M	\$22.99 M
Change in Annual Funding *	\$0.580 M		\$9,200	\$0.589 M
Change in Annual Funding as % of Pay	0.034%		0.013%	
* The costs of providing the benefit adjustments provided in this bill do not directly or immediately translate into changes in contribution rates. Benefit changes, unfunded accrued liability, earnings on fund assets, and experience gains or losses will be accounted for in the July 1, 2010, valuation, which will be used to determine contribution levels beginning July 1, 2011 (i.e., FY 2012).				

[Estimates for the impacts are based on the actuarial funding methods and assumptions used in the July 1, 2009, valuations.]

#### Additional Details-

*PERF 13<sup>th</sup> Check:* There is no provision in current statute for a 13<sup>th</sup> check. The PERF Fund is actuarially funded by employer contributions and earnings from fund assets. The level of PERF employer contributions is established by the PERF Board. Considering this 13<sup>th</sup> check benefit adjustment only, the associated state contribution level should be sufficient to fund the benefit for retired state employee PERF members. The funds affected for the annual funding for PERF contributions across all state agencies are the state General Fund (about 55% of the total) and various dedicated funds (about 45% of the total). The one-time payment of the 13th check will be made in FY 2011.

*TRF (Pre-1996 Account) 13<sup>th</sup> Check:* The TRF Fund consists of two accounts: the Pre-1996 Account and the 1996 Account. The Pre-1996 Account is funded by the state, and the 1996 Account is funded primarily by

local school corporations. The one-time payment of the 13<sup>th</sup> check will be made in FY 2011. The impact to the state for the Pre-1996 Account is shown in the summary table, above. [The impact for the 1996 Account is shown in the *Explanation of Local Expenditures*, below.]

The Pre-1996 Account is not actuarially funded, but rather is funded on a pay-as-you-go basis by state General Fund appropriations, investment earnings of fund assets, and, if necessary, additional amounts obtained from the Pension Stabilization Fund. For the TRF Pre-1996 Account contributions, the state General Fund contribution level is specified in statute.

*State Police 13<sup>th</sup> Check:* There is no provision in current statute for a 13<sup>th</sup> check for members of the State Police 1987 Benefit System. The cost to the state for a 13<sup>th</sup> check for the State Police is shown in the table, above. The State Police System is funded by appropriations, half from the state General Fund and half from the Motor Vehicle Highway Account. (The funded status would remain at 78.5%.) It is estimated that there would be 470 employee beneficiaries eligible for the 13<sup>th</sup> check and that the 13<sup>th</sup> check would equal approximately \$269 per beneficiary.

*Background -* The following table shows the administrative and investment expenses for PERF and TRF for FY 2009.

<b>FY 2009 Expenses</b>	<b>PERF</b>	<b>TRF</b>
Administrative	\$26.06 M	\$8.07M
Investment	\$63.77 M	\$31.87 M
<b>Total</b>	<b>\$89.83 M</b>	<b>\$39.94 M</b>

**Explanation of State Revenues:** The pooling of assets, to the extent achievable under this proposal, could generate higher investment returns and lower investment costs for the pension funds. As of November 30 , 2009, PERF net assets amounted to \$14.2 B, and TRF net assets were \$8.1 B. Combined net assets totaled \$22.3 B.

Increased investment returns generated from this provision will not directly translate to any near-term reductions in state or local expenditures for member benefits. However, this provision could result in additional earnings to the pension funds over a longer period of time. Other things being equal, such as member experience, an increase in earnings could ultimately affect the contribution rates by the members' employers.

**Explanation of Local Expenditures:** *Cooperation between PERF and TRF Boards* The bill may also provide some administrative savings to local employers.

*PERF 13<sup>th</sup> Check-* There is no provision in current statute for a 13<sup>th</sup> check. The cost of a 13<sup>th</sup> check to local units and school corporations for PERF members is provided in the following table.

<b>13<sup>th</sup> Check</b>	<b>PERF-Local</b>
Change in Unfunded Accrued Liability	\$11.28 M
Change in Annual Funding *	\$870,000
Change in Annual Funding as % of Pay	0.028%
* The costs of providing the benefit adjustments provided in this bill do not directly or immediately translate into changes in contribution rates. Benefit changes, unfunded accrued liability, earnings on fund assets, and experience gains or losses will be accounted for in the July 1, 2010, valuation, which will be used to determine employer contribution levels beginning January 1, 2012.	

The level of PERF employer contributions is established by the PERF Board. Considering this 13<sup>th</sup> check benefit adjustment only, the associated contribution level should be sufficient to fund the benefit for retired PERF members.

*TRF (1996 Account) 13<sup>th</sup> Check*- The 1996 Account is prefunded, with an actuarially calculated contribution equal to the benefit accrual cost for the year (the plan's normal cost) plus a 30-year amortization of the unfunded accrued benefit liability. The impact is summarized in the following table.

<b>Impact on School Corporations as Employers (TRF 1996 Account) *</b>	
	<b>13<sup>th</sup> Check</b>
Change in Unfunded Accrued Liability	\$0.70 M
Change in Annual Funding	\$0.05 M
Change in Annual Funding as % of Pay	< 0.01%
* Noncertificated employees of school corporations are members of PERF and for which the impact would be included in the table for local units.	

Account revenues include annual contributions from school corporations at a percentage of payroll, currently 7.50%, and investment earnings on fund assets. Considering this 13<sup>th</sup> check benefit adjustment only, the associated contribution level should be sufficient to fund the 13<sup>th</sup> check for retired TRF 1996 Account members.

### **Explanation of Local Revenues:**

**State Agencies Affected:** All

**Local Agencies Affected:** Those units with members in PERF and school corporations with members in PERF and TRF.

**Information Sources:** Doug Todd of McCready & Keene, Inc., actuaries for PERF, 317-576-1508; John Dowell, Nyhart Group, actuaries for TRF, 317-845-3580; Terren Magid, Executive Director, PERF, 317-234-4375; Steve Barley, Deputy Director and Chief Operating Officer, PERF, 317-233-4184; Steve Russo, Executive Director, TRF, 317-232-3864.

**Fiscal Analyst:** James Sperlik, 317-232-9866; Alan Gossard, 317-233-3546.

### **DEFINITIONS**

Cost-of-Living Adjustment- An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

Present Value– The present value (sometimes called actuarial present value) of an amount or series of amounts payable or receivable in the future is their current worth after discounting each such amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.

Thirteenth Check– A thirteenth check is an annual supplemental retirement allowance arising from earnings on the investments of a system in excess of those determined as needed for other purposes. Unlike a cost-of-living adjustment, the amount of this supplemental retirement allowance does not increase the pension base.

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.